INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 12 September 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we have conducted a thorough assessment of the economic and inflation outlook, also taking into account the latest staff macroeconomic projections for the euro area. As a result, the Governing Council took the following decisions in pursuit of its price stability objective.

First, as regards the **key ECB interest rates**, we decided to lower the interest rate on the deposit facility by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. We now expect the key ECB interest rates to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Second, the Governing Council decided to restart net purchases under its asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

Third, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Fourth, we decided to change the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years.

Fifth, in order to support the bank-based transmission of monetary policy the Governing Council decided to introduce a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.

Separate press releases with further details of the measures taken by the Governing Council will be published this afternoon at 15:30 CET.

The Governing Council reiterated the need for a highly accommodative stance of monetary policy for a prolonged period of time and continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Today's decisions were taken in response to the continued shortfall of inflation with respect to our aim. In fact, incoming information since the last Governing Council meeting indicates a more protracted weakness of the euro area economy, the persistence of prominent downside risks and muted inflationary pressures. This is reflected in the new staff projections, which show a further downgrade of the inflation outlook.

At the same time, robust employment growth and increasing wages continue to underpin the resilience of the euro area economy. With today's comprehensive package of monetary policy decisions, we are providing substantial monetary stimulus to ensure that financial conditions remain very favourable and support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the sustained convergence of inflation to our medium-term inflation aim.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.2%, quarter on quarter, in the second quarter of 2019, following a rise of 0.4% in the previous quarter. Incoming economic data and survey information continue to point to moderate but positive growth in the third quarter of this year. This slowdown in growth mainly reflects the prevailing weakness of international trade in an environment of prolonged global uncertainties, which are particularly affecting the euro area manufacturing sector.

At the same time, the services and construction sectors show ongoing resilience and the euro area expansion is also supported by favourable financing conditions, further employment gains and rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

This assessment is broadly reflected in the September 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.2% in 2020 and 1.4% in 2021. Compared with the June 2019 staff macroeconomic projections, the outlook for real GDP growth has been revised down for 2019 and 2020.

The risks surrounding the euro area growth outlook remain tilted to the downside. These risks mainly pertain to the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.0% in August 2019, unchanged from July. Lower energy inflation was offset by higher food inflation, while the rate of HICP inflation excluding food and energy was unchanged. On the basis of current futures prices for oil, headline inflation is likely to decline before rising again towards the end of the year. Measures of underlying inflation remained generally muted and indicators of inflation expectations stand at low levels. While labour cost pressures strengthened and broadened amid high levels of capacity utilisation and tightening labour markets, their pass-through to inflation is taking longer than previously anticipated. Over the medium term underlying inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and robust wage growth.

This assessment is also broadly reflected in the September 2019 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.0% in 2020 and 1.5% in 2021. Compared with the June 2019 staff macroeconomic projections, the outlook for HICP inflation has been revised down over the whole projection horizon, reflecting lower energy prices and the weaker growth environment.

Turning to the **monetary analysis**, broad money (M3) growth increased to 5.2% in July 2019, after 4.5% in June. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The annual growth rate of loans to non-financial corporations remained unchanged at 3.9% in July 2019. The annual growth rate of overall loans to non-financial corporations continues to be solid, although short-term loans – which are more sensitive to the cycle – show signs of weakness. The annual growth rate of loans to households stood at 3.4% in July, after 3.3% in June, continuing its gradual improvement. Overall, loan growth is still benefiting from historically low bank lending rates.

The monetary policy measures we have taken today, including the more accommodative terms of the new series of TLTROs, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is currently providing some support to economic activity. In view of the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space should act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies that will create the conditions for automatic stabilisers to operate freely. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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Good afternoon Mr President.

President Draghi: Good afternoon.

The question, my first question would be about the dynamic in the room because going into the meeting we've seen quite a vocal opposition, especially to the restarting of the QE, so probably me and the others here would like to know how much support each of the instruments that were eventually adopted got and whether, how much support was there for it? My second question is specifically about your Asset Purchase Programme (APP) because it's effectively a programme that's open-ended, it starts from November which basically means you will end up buying bonds or assets for months or years, the question is do you have the space to do it, have you considered changing limits or adding other assets to the programme? Thank you.

President Draghi: Thank you. If I can, before giving you the sort of the chemistry of the meeting let me just spend a word trying to explain what we have actually done. I think as I kind of sketched in the Introductory Statement there were three elements that prompted action. Along the lines, by the way, that you would find in my Sintra speech. First of all after, and again if anything after Sintra the case became even stronger because the protracted slowdown in the eurozone economy is actually more marked than expected, this is the first element. The second element is the persistent and the persistence of downside risks of trade nature but also geo-political nature in the eurozone. And by the way our baseline scenario that actually contains the third reason for acting, namely the downward revision in projected inflation with the inflation expectations at this low level and the current underlying inflation being muted. This baseline scenario is also relatively favourable because it doesn't contain the case of a hard Brexit for example, the probability of which has gone up over recent time, and it doesn't contain some of the trade measures, trade escalation at least, some of the trade escalation that's taken place since August. So with this relatively favourable baseline scenario there was a downgrade in inflation and inflation expectations. And so that's over the whole horizon. And that's what prompted the measures we've taken and let me just spend a word explaining them and then I will answer your points more specifically. First of all, the lowering of the DFR, the Deposit Facility Rate, together with the reinforced forward guidance operates all throughout the yield curve, especially in the short- and the medium-term segments. And then you see that there is a different forward guidance today, it's a strengthened state-dependence, there is no more calendar-dependence and this should give a pretty good guidepost, pretty clear guidepost for rate expectations by linking our policy to more stringent conditions for the inflation outlook. Over our projection horizon, projected inflation will not only need now to converge but also as I think I read in the Introductory Statement, also stabilise around a level sufficiently close to but below 2%. The reference to levels sufficiently close to but below 2% signals that we want to see projected inflation to significantly increase from the current realised and projected inflation figures which are well below the levels that we consider to be in line with our aim. Our guidance would remain forward-looking but at the same time it contains elements that protect us against the risk of over-reacting to transitory shocks to inflation as well as against forecast and measurement errors, as we would emphasise that convergence should be robust, that's important, and also important is the reference to underlying inflation that will have to increase to ensure that the pick-